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GRIFFIN CAPITAL MARKET RESEARCH NOTE

Renter Demand Strengthens as Homeownership Challenges Persist

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Households are thinking and acting differently than they did a few years ago when home prices were relatively affordable, and interest rates were at historic lows. The all-in cost of homeownership was low and that encouraged households to buy – driving a steep run-up in home prices.

Today, the housing market is tight, and prices are sticky at those higher levels. Interest rates are higher and the hurdle to homeownership is challenging for many to clear. What flows from these conditions is not hard to miss. More households are choosing to rent, and these shifting dynamics have not been subtle.

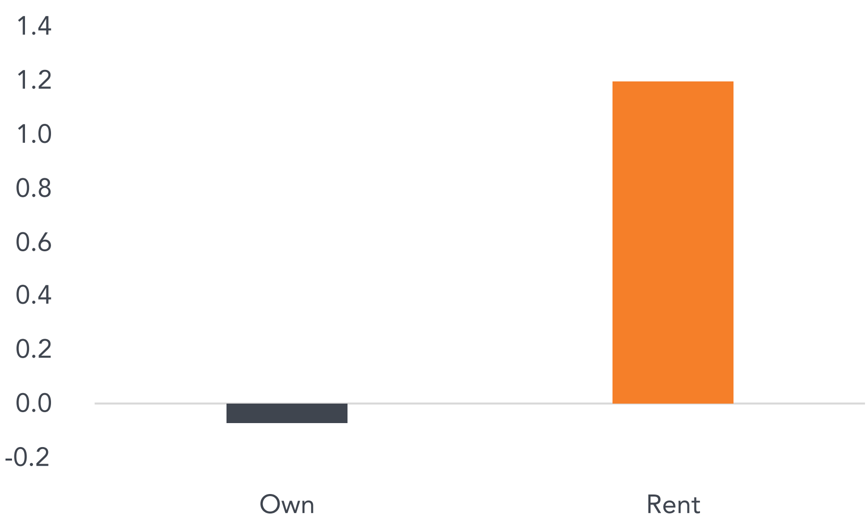
The government recently released its household estimates for Q1. There are about a million new households since 2023 Q4,[1] and the entirety of this increase is from households that rent.

Renter households increased by 1.2 million[2] and owner-occupied households declined slightly.[3] As a result of these shifts, the homeownership rate fell to 65.1%,[4] the lowest level since the onset of the COVID-19 pandemic and lower than it was 20 years ago.

Given these shifts, what can we forecast moving forward? With a well-documented housing shortage and a tight housing market, single-family home prices are likely to remain elevated. For sale housing inventory is extremely low and homeowner occupancy rates are extremely high. The most recent data reflects a homeowner vacancy rate of just 1.1%,[5] the lowest level since 1978, with the exception of the COVID-19 pandemic era.

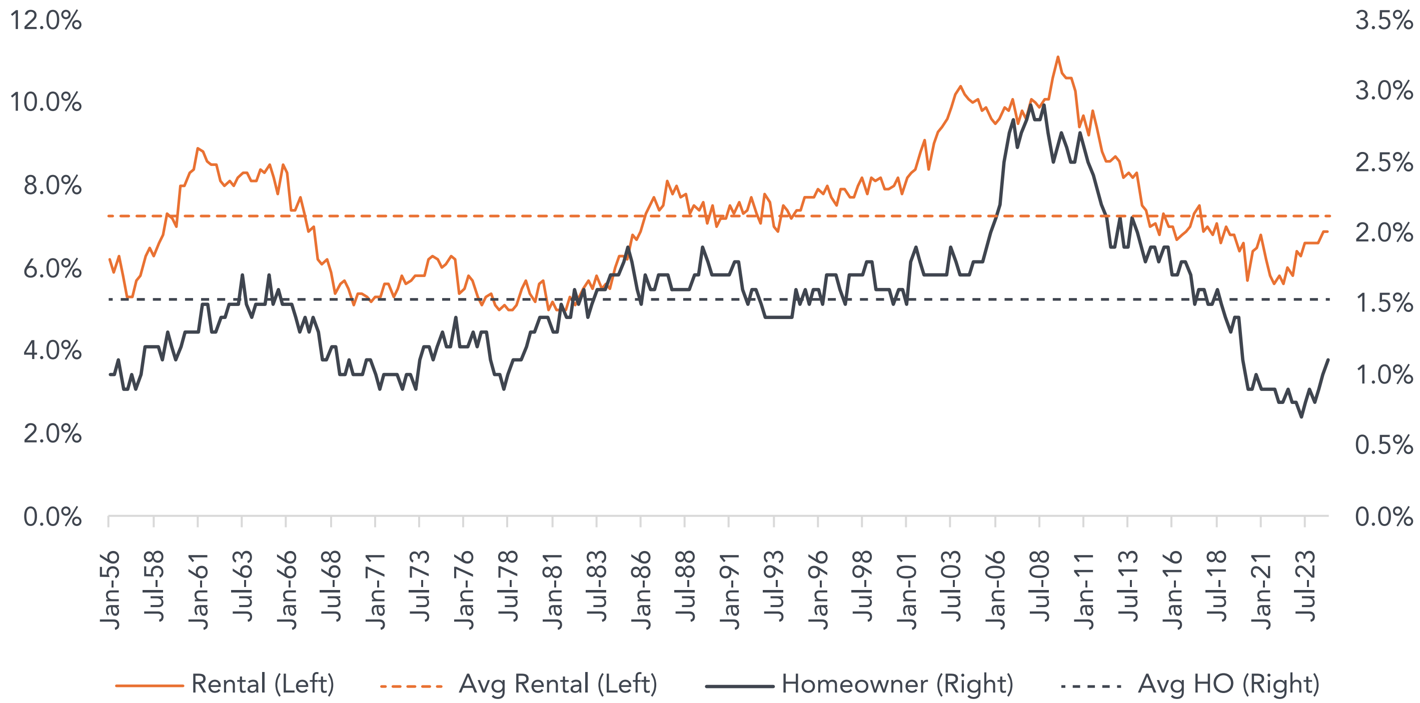
Household Change (Millions)

Q4 2023 - Q1 2025



Source: U.S. Census Bureau, Housing Inventory Estimate.

Vacancy Rates



Source: U.S. Census Bureau, Homeowner & Rental Vacancy Rate in the United States.

Home builders are challenged to come to the rescue as rising construction costs and tighter profit margins suggest needed supply is not on the way. Households will continue to struggle to save for the down payment to buy, suggesting that growth in renter households will continue.

Looking forward, the trend in household formation is expected to continue with forecasters projecting that households will increase by 8.6 million from 2025 to 2035.[6] The question is what will be the mix between owners and renters?

In the mid-2010s, many housing experts analyzed the question, including a study from the Wharton School at the University of Pennsylvania, and forecasted that homeownership rates in 2030 will further decline to near 60%.[7] Knowable factors fed the forecast, including age, gender, ethnicity, household size, and housing costs. Mortgage rates below 3% and nesting during the pandemic took us off that trend for a short period, however conditions have returned to the environment of a decade ago suggesting that the homeownership rate could reasonably be expected to fall. With 132 million households in the United States,[8] each percentage point drop in homeownership adds 1.32 million new renter households. This shift will happen during an environment where new multifamily supply deliveries will drop 30%.[9] More demand and a declining supply will pressure rents higher.

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The predictable demand produces investable opportunities in the rental market. The fundamentals are strong for rental real estate, which also comes at the same time the public equity markets are burdened with significant uncertainty. The clarity of housing market fundamentals is increasingly attractive given this backdrop.

ENDNOTES

1. U.S. Census Bureau, Household Estimates.
2. U.S. Census Bureau, Housing Inventory Estimate: Renter Occupied Housing Units in the United States.
3. U.S. Census Bureau, Housing Inventory Estimate: Owner Occupied Housing Units in the United States.
4. U.S. Census Bureau, Homeownership Rate in the United States.
5. U.S. Census Bureau, Homeowner Vacancy Rate in the United States.
6. https://www.jchs.harvard.edu/research-areas/working-papers/household-and-new-housing-unit-demand-projections-2025-2035-and-2035.
7. https://realestate.wharton.upenn.edu/working-papers/a-renter-or-homeowner-nation/.
8. U.S. Census Bureau, Household Estimates.
9. CoStar.

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